

# What has to change to modernize the WE value chain?

Taxation and forest control as a policy tool

Steve Sepp



# Wood energy – key source of renewable energy



Important

but



Informal

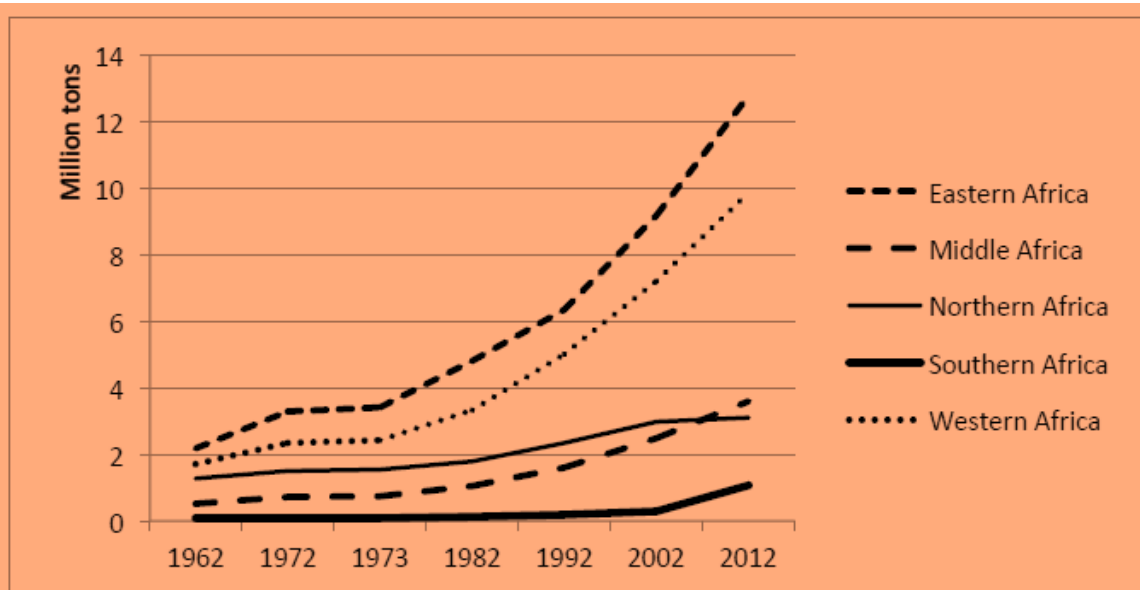


Figure 1: Charcoal production in Africa (FAOSTAT 2014)

Source: Neufeldt H, Langford K, Fuller J, Iiyama M, Dobie P. 2015 ICRAF

Worth between US\$9.2 billion and US\$24.5 billion annually (UNEP 2014) → margin of error → uncertainty

- Around 80% of all wood energy (WE) is marketed without the required permits
- Only 1 to 10% of potential taxes are raised
- “**private taxes**” otherwise known as bribes account for ca. 12% (Malawi) to 30% (Kenya) of the market value
- Substantial foregone tax revenues due to uncontrolled forest exploitation in Africa

## Togo Example:

- WE turnover estimated at 294 million USD
- Taxes raised 0,03 %

Source: Bertrand, Kotoko 2014, GIZ-PRODRA

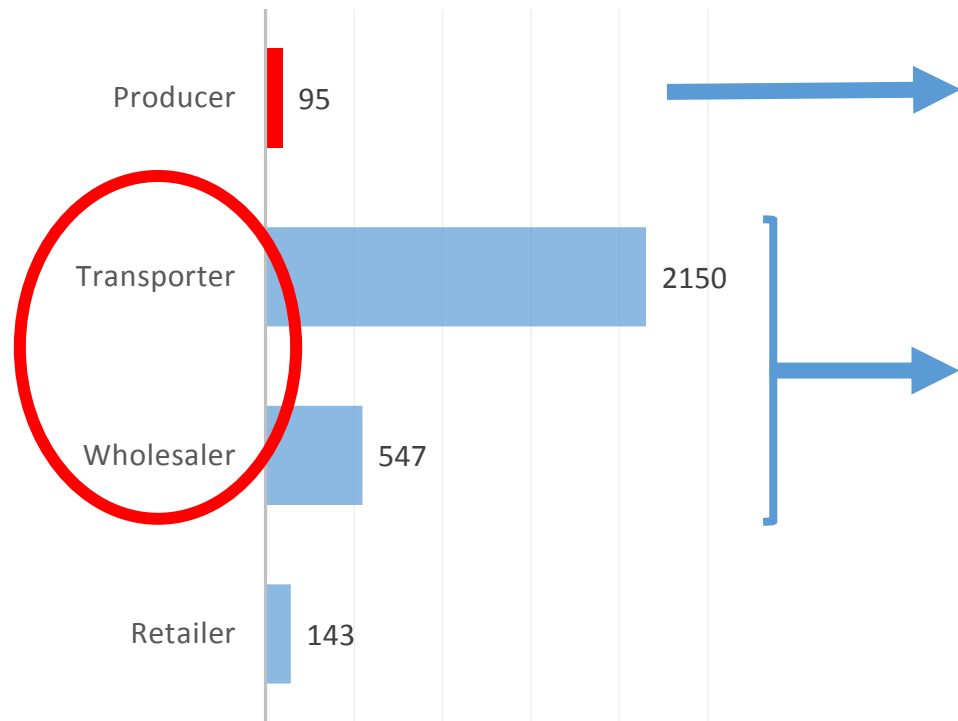


# Charcoal producer benefits least

## Example Kenya

USD/month

0 500 1000 1500 2000 2500



- No incentives for SFM
- No motivation for investments

Few people in control of the charcoal industry are heavily involved in corruption.



Source: Ministry of Environment, Water and Natural Resources Kenya (2013): Analysis of the Charcoal Value Chain in Kenya, Nairobi.

# Investments in SFM fail

## Sustainable Forest Management

### Open access exploitation

Exploitation costs



Conversion costs



„private taxes“



Transport costs



WE Market



No level playing field !



Investment costs (5-10 USD/ha)



Municipal/community fees/taxes



Exploitation costs



Conversion costs



Marketing costs



„private taxes“



Transport costs

# Taxation – a widely overlooked issue

- Most NRM Projects fail to tackle taxation and/or law enforcement
- Some projects handle it as a side activity and fail

## Experience:

- Niger – Guesselbody
  - Differential taxation applied first time, mid-1980s
- Mali, Senegal, Niger – tax applied in managed areas only
- Madagascar – mixed results on local pilot level
- Chad – good results, but temporary



# Prerequisites that mattered (Chad experience)

- Law 36/PR/94: regulates woodfuel business
  - Introduced **differentiated tax on transport** of woodfuel
  - Allocated **long-term usufruct rights** for natural resources to villages
    - Conditions:
      - Management plan approved by Forestry Department
      - Management plan correctly applied
    - Benefits:
      - Sole users of wood on their territory
      - In addition, proceeds of tax
- Clear responsibility for biomass energy sector:
  - Created AEDE, **autonomous Agency** for HHE development
    - Implementing agency, tax payment, verification system, involve local operators, exercising forest control
    - Oversight by a Board (Energy, Forestry/Environment, Finance, Private Sector)
- Adequate funding (Budget, IDA, tax proceeds)



# Taxation scheme *to provide benefits*

- Not just a taxation scheme – a *differential taxation scheme*
- Designed to provide benefits
  - Low tax for good behavior (SFM)
  - High tax for business as usual
- Level
  - Reflect management & replacement costs (Pigouvian Tax)
  - Adds about 10 -20% to retail price
- Levied at source
- Proof of origin (coupons in reference to AAC)
- Verification & double check in town
- Only registered transporters

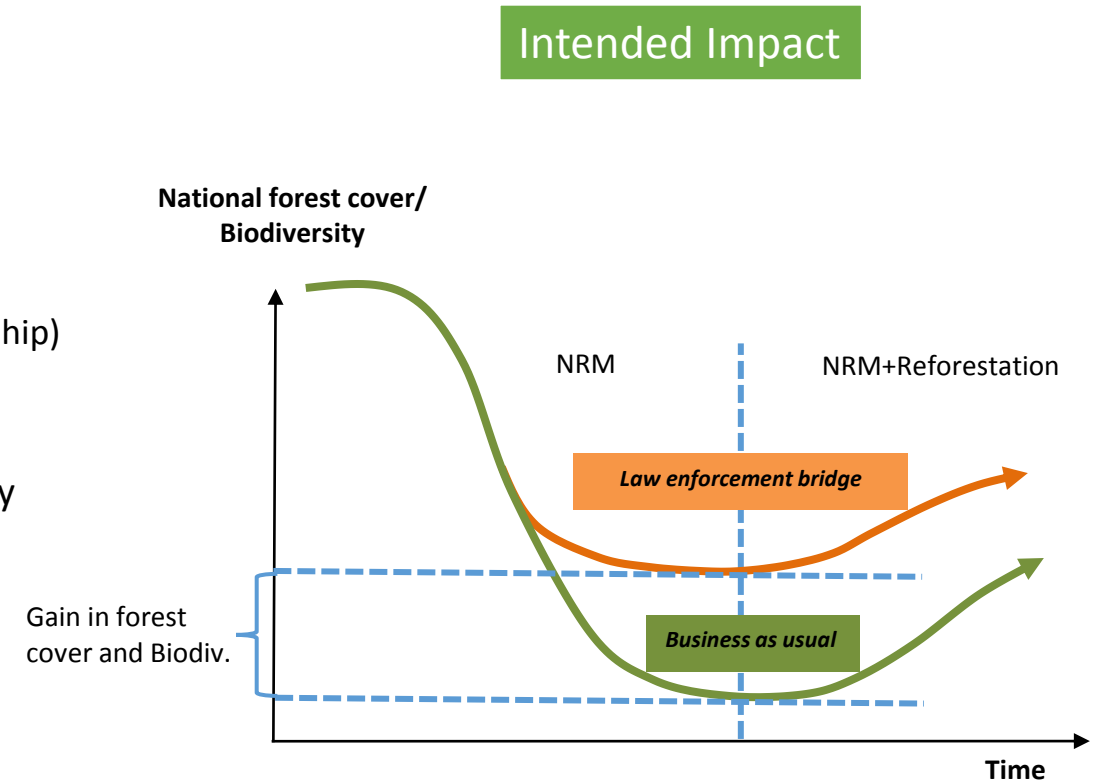
## DISTRIBUTION OF TAX PROCEEDS





# Lessons learnt

- Regulatory framework needs to be supportive
  - Government is willing to engage
  - Legal texts and regulations allowing a differential taxation system
    - Providing incentives rather than punishment
  - Clear institutional responsibilities
  - Allow true management of NR by communities/individuals (full ownership)
- Economic viability
  - Ownership and economic benefits as driving force for sustainability
- Adequate funding available
  - Establishment of self-sustaining control system
  - Assist villages to develop & implement NRM plans
  - Effective tax payment verification system
  - Monitoring & presentation of results





A close-up photograph of a pile of dark, charred wood logs and green plant stalks. The wood is black and has a rough, cracked texture. The plant stalks are green and have a fibrous, segmented appearance. The text "Thanks for your attention" is overlaid in white, sans-serif font in the center of the image.

Thanks for your attention